streetwise

BY STEPHEN BARLAS, LANCE MERTZ, PAUL SHILLAM, KATHRYN VAGNEUR, KATHY WILLIAMS

[NEWS]

Improve Your Corporate Governance Practices | KATHY WILLIAMS, EDITOR

Last month The Conference Board issued what it calls its most comprehensive report ever on what companies need to know and do to improve their corporate governance practices. Titled *Corporate Governance Handbook 2005: Developments in Best Practices, Compliance, and Legal Standards*, it "gives directors what they need to know about crucial developments on the legislative and regulatory front and shows how to determine what are 'best' corporate governance practices and how to implement them," says Carolyn Kay Brancato, research director, Global Corporate Governance Research Center.

According to a Conference Board press release, the report answers an array of questions that directors have been asking, such as how to spot and deal with accounting red flags that might indicate fraud, how to make compensation consultants accountable to the board, why a board needs to oversee a robust compliance program, what governance processes should be implemented to help restore public confidence in companies and capital markets, and why strong governance programs can reduce corporate risk. It also calls on corporate directors to redefine their roles with management, strengthen their independence, and improve practices and processes in their companies' audit, compensation, and governance committees.

Strategy and risk, as well as evolving director fiduciary requirements, are key topics in the report. The publication also includes insights and recommendations from prominent directors and chief executives from a wide range of companies.

For more information about the report, contact Frank Tortorici at (212) 339-0231.

Who's Happy with the Budgeting Process?

Over the years, many American companies have reported being less than thrilled with their budgeting process and have tried many ways to streamline it. Now it looks like some European companies are having the same problems. A new Hackett Group study of 80 European companies found that attempts by most European CFOs to reengineer their company's budgeting process over the last two years haven't achieved the results they wanted. More than 70% of the CFOs remain unhappy with their budgeting and planning process. Initiatives designed to shorten the budgeting cycle have generated only incremental improvement, and typical large European companies take four months to complete their budgets and eight months to complete the planning cycle. Some companies are taking 10

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"I SHOULD'VE BEEN A COWBOY"

So Toby Keith says, but not the CareerJournal.com's new report on the best and worst jobs in the nation. According to a recent press release, the editors talked with Les Krantz, a nonfiction publisher and researcher who defines good and bad jobs. He bases his choices on six factors: income, stress, physical demands, outlook, security, and work environment. Then he adds his preferences, such as "it's better to work indoors in an air-conditioned office than to work outside."

The best jobs? Accountant, actuary, bank officer, biologist, computer systems analyst, financial planner, parole officer, software engineer, statistician, and website manager.

The worst jobs? Construction worker (laborer), cowboy, dancer, fisherman, garbage collector, ironworker, lumberjack, roofer, seaman, and welder.

For more information, visit www.careerjournal.com. ■

Letters to the Editor

The CMA Is Relevant

I have been an accountant for 23 years now and am currently the finance director and CFO of an Indian Tribe in Alaska. It took me 20 years to reach what I consider the top of the profession and thoroughly enjoy it and the challenges involved. Along the way I passed the CPA exam, CMA exam, and got a Master's in Public Administration. I value the CMA certificate more than any of the others. In 20 years of management accounting, I have never met a CPA who spent many years in public accounting who was also a good management accountant. In other words, they were not good managers, and management accounting is about management. Auditors learn how to do samples, fill out checklists, and identify problems with the presentation of financial information. They do not learn how to solve problems or deal with the continuing challenges of the day-to-day grind, and, finally, they only identify the alligators; we are the ones who have to kill them.

Almost no one I have ever met who was not an accountant knew what the CMA is! They thought the most important thing about an accountant's qualifications was that they were CPAs. During a period of unemployment I was passed over for a CPA—for a managerial accounting job. The candidate that was hired lasted less than six months, and I was subsequently contacted about the job but had moved to Alaska and taken a job up here. The sole reason I was passed over was that I did

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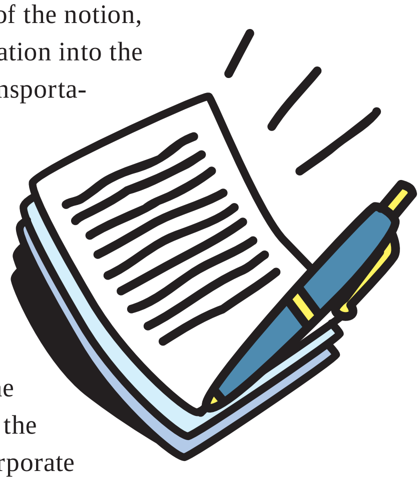
[GOVERNMENT]

FEI Fights CEO Certification | STEPHEN BARLAS, EDITOR

The issue of a separate CEO attestation to the accuracy of the corporate tax return is back. There was an amendment requiring it in the Senate version of the 2004 corporate tax bill, but it was ejected from the bill by the House-Senate Conference Committee. Sen. Charles Grassley (R.-Iowa), chairman of the Senate Finance Committee, the sponsor of the notion, slipped an amendment requiring CEO attestation into the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2005 (SAFETEA), which cleared the Senate in May. That bill funds highway and road construction projects—often known as pork barrel projects—around the country. Congress failed to pass a highway bill in 2004 but is almost sure to do so in 2005—and fairly soon. The House version of the highway bill doesn't include the CEO certification provision. Section 5506 of the Senate bill requires the CEO—or another corporate officer the Secretary of Treasury designates if there is no CEO—to sign a declaration attesting to the existence of "place processes and procedures that ensure that such return complies with the Internal Revenue Code of 1986 and that the chief executive officer was provided reasonable assurance of the accuracy of all material aspects of such return." Mark Prysock, general counsel of Financial Executives International (FEI), says the Grassley amendment is unnecessary for at least three separate reasons. First, a corporate officer already signs the return under penalties of perjury. Second, many companies pay outside auditors to review tax returns before they are filed. Third, larger companies have IRS auditors dedicated to doing nothing but reviewing their tax filings/positions on a year-round basis. Prysock asks, "Given the amount of resources already committed to 'getting it right,' what additional benefit can be derived from having a CEO, who is almost certainly not a tax expert, sign a declaration?"



McDonough Tells Auditors to be Reasonable on 404 Attestation

Every time you turn around in Washington, someone else seems to be talking about "attestation" of one kind or another. Amidst the ferment over Sarbanes-Oxley Section 404 reports to the SEC, William McDonough, chairman of the Public Company Accounting Oversight Board (PCAOB), tried to clear up a couple of relevant points at hearings in the House Financial Services Committee. The PCAOB issued Auditing Standard No. 2

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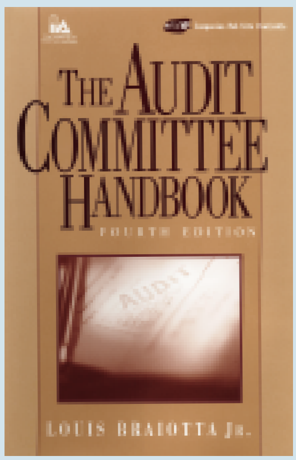
[BOOKS]

Examining the "New" Audit Committee

The high-profile corporate scandals and independent accounting and audit failures that continue to dominate the business news brought about a flurry of legislative changes, accounting pronouncements, and other guidance focused on ensuring the reliability and visibility of corporate reporting and protecting investors and the general public from further harm. Included in these changes are new expectations and responsibilities for a company's Audit Committee. In *The Audit Committee Handbook*, *4th edition*, Louis Braiotta, Jr., updates his tome with all the new duties, obligations, accountabilities, and operations expected of and from an Audit Committee and its members.



Braiotta begins by encapsulating the events and factors that have impacted the Audit Committee. Particularly insightful is the section addressing the recent developments in corporate accountability, where Braiotta highlights the various developments from 1998 to 2003. To give you an idea of the breadth of the changes, take a look at some of the organizations that have had an impact on the Audit Committee: the Securities & Exchange Commission (SEC), Committee of Sponsoring Organizations of the Treadway Commission (COSO), American Institute of Certified Public Accountants (AICPA), National Association of Corporate Directors, Public Oversight Board, U.S. Congress, Public Company Accounting Oversight Board, and the New York Stock Exchange.

Braiotta continues with a great refresher (due to the numerous changes) and introduction for Audit Committee members. For Committee members who aren't an Audit Committee Financial Expert, the information is extremely helpful in understanding the purpose of Audit Committees as well as who uses the information resulting from its oversight.

One of the more difficult concepts that an Audit Committee regularly oversees is internal control. As Braiotta states, "The board of directors will rely increasingly on the Audit Committee for assurance that management is complying with the internal accounting control provisions." This includes the various regulations, legislation, and pronouncements under which an organization operates.

Braiotta defines internal control as a group of processes designed to provide reasonable assurance that an organization is achieving its objectives with respect to:

◆ The control environment (tone at the top and appropriate control policies and procedures);

◆ Operations effectiveness and efficiency;

◆ Reliability of the accounting and financial reporting systems; and

◆ Compliance with laws and regulations.

Braiotta explores the meaning and sources of internal control in depth, fully developing the concepts and reasoning so an Audit Committee member may better understand this critical topic.

Another helpful facet of the book is the online appendices, which add valuable resources to augment the text. They include a glossary; an historical perspective on Audit Committees; the Foreign Corrupt Practices Act Amendments, the Federal Deposit Insurance Corporation Improvement Act, and the Model Business Corporation Act; an excerpt from The Committee on Corporate Governance's The Code of Best Practice; the executive summary for COSO's Internal Control-Integrated Framework—Volume 1; and broad guidelines for an example of a code of business conduct.

Also, at the end of each chapter, Braiotta lists sources and suggested readings that will provide additional avenues for research on any topics of interest.

The Audit Committee Handbook, *4th edition*, is timely, relevant, and provides a one-stop resource on Audit Committees. I highly recommend this book for boards of directors, Audit Committee members, financial executives, and anyone else interested in the Audit Committee's role and responsibilities in the corporate environment—both profit and nonprofit.—*Paul Shillam, CMA, CPA*

[GOV'T] *cont'd from p. 22*

(AS2) in March 2004 to help guide auditors when they "attest" to the veracity of a company's 404 internal controls report. Big companies have vented that too many auditors are focusing on minutiae that are unlikely to affect the financial statements. Auditing Standard No. 2 requires testing of controls that are designed to make it probable that the financial statements are fairly presented in all material respects. But McDonough emphasized to the Committee, "While it is necessary for the auditor to understand the overall control system and to 'walk through' the operation of all significant control processes, the focus should indeed be on what is material to the financial statements, not on the trivial." Another sore spot for companies has been the PCAOB's insistence that auditors check a company's internal controls themselves, not depend on checks companies have performed and made available to the auditor. But McDonough said that AS2 gives auditors "considerable flexibility" to rely on the work of others, including, for example, "using internal auditors to provide direct assistance in the audit of internal control over financial reporting."

House Social Security Bill May Include Corporate Tax Increases

It now looks like any Social Security reform bill emerging from Congress this session will have a substantially bushy tail consisting of all sorts of nonsocial security proposals, and the tail may well end up wagging the dog. A number of corporate tax increases could be part of that tail, based on some ideas that Rep. Bill Thomas (R.-Calif.) has been tossing around. Thomas is chairman of the House Ways & Means Committee. He has said he wants to put together a broad bill that addresses a number of retirement security issues, not just Social Security. He wants Democratic support, too, which is why he is reaching for provisions on things like corporate pension, healthcare reform, and Social Security changes that Democratic members of his Committee have supported. In the latter category is an increase in the $90,000 ceiling on income subject to the payroll tax. Increasing that ceiling would raise both corporate and individual taxes. In the health50
care area, Thomas might endorse ending the exclusion from taxes of employer-provided healthcare benefits. About the only thing that won't be up for grabs, according to Rep. Jim McCrery (R.-La.), chairman of the W&M's Social Security subcommittee, is an increase in the payroll tax itself. "There are very few members that are in concrete on just about anything except raising the payroll tax," he says. Thomas expects his Committee to pass a Social Security reform-plus bill. ■

[LETTERS] *cont'd from p. 22*

not have enough public accounting experience, something that had no relevance to the job as assistant controller of a manufacturing firm. This cannot be an isolated experience.

I am also an adjunct instructor at the local University of Alaska campus and have taught accounting, management, and computer courses for almost 10 years. During this time I have informed my students about the CMA exam and its purpose as well as about the IMA.

First, I believe we should all strive to be the best we can be, including [obtaining] applicable and relevant certifications. CMA is relevant to the job I do every day. My CPA has relevance about 1/10th of the time: when I am preparing for the annual audit. Otherwise, I am managing resources and people, working on budgets, gathering and analyzing data, preparing reports, or meeting with other senior management and others outside the organization. If someone can show me how the CPA exam and its credentials would help me with those activities, I would like to see it.

I could go on, but I won't beat a dead horse. Managerial accounting is a profession of its own, separate and distinct from the CPA or CIA credentials, and should be treated as such. Employers who do not seek or ask for the CMA are simply ignorant of its existence and relevance, and I applaud the IMA for its program to make it more accepted and essential.

Lance K. Mertz, CMA, CPA, MPA
Finance Director
Ketchikan Indian Corporation
Ketchikan, Alaska

Rebalancing the Profession

I am a long-time member of IMA and also a CPA and institutional investor.

The apparent intent behind [IMA's] press release is welcome, but I wonder if IMA will continue to follow the crowd or, under [Paul Sharman's] leadership, begin to address some of the real challenges facing our profession.

I would propose that "rebalancing the profession" is going to be achieved by providing high-profile leadership in solving issues such as these:

a. Corporate Governance Reform—Key structural problems within the governance system need to be understood and solved, yet structural issues are not on anyone's agenda. For example:

- Most of the information available to

investors, boards, and senior management is obtained via the chain of command where there is a natural incentive to manipulate when things go bad;

- Simple data collection processes at the regulatory level could prevent future Enrons where SarBox may not.

b. Supervision by Boards—There are changes that could make boards more effective:

- The internal governance mechanisms within companies should be linked into boardroom process, but few are;
- Directors need data that does not arrive via the chain of command, yet rarely do they get it.

c. Accountability—It is time to rethink our performance reporting model:

- Finance directors (CFOs) are responsible for reporting performance and for the forecasting and delivery of large elements of it. This is one of the great contradictions of our day;
- Performance comes in different dimensions, and we need to measure, monitor, audit, and report these different dimensions of performance;
- The audit should be of the enterprise, not just the financial accounts as it is now;
- Investors' needs are not met by GAAP/IAS, and surely we can produce more useful performance reports that allow investors to build better valuation models.

d. Next-Generation Management—A few companies are developing it, but we need to understand and disseminate information about what they are doing. Who are better than the management accountants to understand it?

Clearly, it is best to pick some limited objectives and make significant wins, but IMA needs a longer-term game plan guiding the process. It is time for some "out of the box" thinking—I hope [Paul Sharman] can make it happen.

Dr. Kathryn Vagneur
London

[NEWS] *cont'd from p. 21*

to 12 months to finish.

The Hackett Group says that, in a related problem, companies spend more than half their time and energy in budgeting on low-value-added work such as data collection and validation, leaving little time for strategic analysis. Hackett's research found that, in order to change their processes, companies need to focus on four key areas: workflow management, complexity reduction, automation, and target setting. This includes the use of mid-term planning and rolling forecasts. In fact, the European companies that use rolling forecasts prepared their budgets about 20 days faster than companies not using them.

For more information about the study, contact Gary Baker at gbaker@thehackettgroup.com.

Management Accountants Are in Demand

The hiring outlook is promising for management accountants and financial managers, particularly in the areas of banking/finance, consulting, distribution, healthcare, and high-tech software companies, the Lucas Group, an executive search firm, announced recently. Its annual accounting and finance hiring manager survey found that there are strong employment and business growth trends over the next year. More than 67% of the hiring managers surveyed say they plan to add staff.

But the next 12 months will also pose challenges for employers looking to attract and retain talent. Of the hiring managers responding to the survey, 77% say their workload has increased, and 72% say their staffs are working harder, a reflection of nationwide surveys that show 60% to 70% of employees are planning to seek other employment and that more accountants are needed to help with Sarbanes-Oxley compliance.

Andrea Jennings, general manager for Lucas Group's accounting and finance division, says, "Companies are also seeking candidates to strengthen their SEC departments and fill technical accounting positions." Bill Kuchar, managing partner for the Houston accounting and finance division, adds, "We are finding the primary challenge in accounting and finance hiring stems from this increase in demand. There have been fewer new graduates for the last several years, and the baby boomers are beginning to retire, which leaves a void to be filled. The opportunity for accounting and finance professionals is vast." ■